



## It's the Welfare State, Stupid

By [Robert Samuelson](#) - November 12, 2012

WASHINGTON -- If you doubt there's an American welfare state, you should read the new study by demographer Nicholas Eberstadt, whose blizzard of numbers demonstrates otherwise. A welfare state transfers income from some people to other people to improve the recipients' well-being. In 1935, these transfers were less than 3 percent of the economy; now they're almost 20 percent. That's \$7,200 a year for every American, calculates Eberstadt. He says that nearly 40 percent of these transfers aim to relieve poverty (through Medicaid, food stamps, unemployment insurance and the like), while most of the rest goes to the elderly (mainly through Social Security and Medicare).

By all means, let's avoid the "fiscal cliff": the \$500 billion in tax increases and federal spending cuts scheduled for early 2013 that, if they occurred, might trigger a recession. But let's recognize that we still need to bring the budget into long-term balance. This can't be done only by higher taxes on the rich, which seem inevitable. Nor can it be done by deep cuts in defense and domestic "discretionary" programs (from highways to schools), which are already happening. It requires controlling the welfare state. In 2011, "payments for individuals," including health care, constituted 65 percent of federal spending, up from 21 percent in 1955. That's the welfare state.

Yet, the subject is virtually taboo. Because Americans disapprove of government handouts, we don't even call the welfare state by its proper name, preferring the blander term "entitlements" (the label used by Eberstadt). Mitt Romney's careless comment about "the 47 percent" receiving government benefits -- implying they're all deadbeats -- squelched any serious discussion in the campaign. Interestingly, his figure is probably low: More than 50 percent of Americans may already receive benefits. Obamacare will raise this, because families with incomes up to four times the federal poverty line (\$91,000 in 2011 for a family of four) qualify for insurance subsidies.

Granting the welfare state's virtues -- the safety net alleviates poverty and cushions the effects of recessions -- it's time to pose some basic questions. Who deserves support? How much? How long? How much compassion can society afford?

Programs have strayed from their original purpose. Take Social Security. Created to prevent destitution among the elderly, it now subsidizes the comfortable. The Wall Street Journal recently ran a story about a couple (he 66, she 70) touring the world. They've visited London, Paris, Florence and Buenos Aires. Their financial adviser sends them \$6,000 a month from

investments and proceeds from their home sale. They also receive Social Security. How much? They don't say. My hunch: between \$25,000 and \$50,000 a year. (I emailed the couple for details but received no reply.)

Is this what Franklin Roosevelt intended? Should Social Security be tilted more toward the less affluent? Good questions, but politicians rarely ask them. Anyone who does risks being attacked as hard-hearted.

Welfare programs tend to expand. Advocacy groups discover coverage "gaps." Economic downturns understandably sow sympathy for the needy. Arcane eligibility rules are liberalized. In 2010, a fifth of food stamp recipients had incomes exceeding twice the federal poverty line (about \$45,000 for a family of four), estimates a study by David Armor and Sonia Sousa of George Mason University.

Eberstadt, a scholar at the conservative American Enterprise Institute, sees three dangers in the welfare state's unchecked growth.

First, it squeezes other government programs. This is already happening. President Obama's budget assumes that defense spending, as a share of the economy, falls 39 percent from 2011 to 2022. The Army is to drop by 80,000 soldiers, the Marines, 20,000. Domestic "discretionary" spending is cut even more, 45 percent. Research, education, transportation, law enforcement and other programs face pressures.

Second, it undermines work incentives. This, too, is occurring. Social Security's eligibility ages influence retirement. If eligibility were higher, people would work longer. Eberstadt thinks that relaxed disability requirements have lowered work effort. In 2011, about 4.5 percent of working-age adults (20-64) received Social Security disability benefits, up from 1.3 percent in 1970.

Finally, there's a moral cost. It encourages "gaming" the system to maximize benefits. It devalues the ethic of "earned success." There's tension between helping the truly needy and fostering dependence on government and helplessness.

The welfare state's great contradiction -- the reason its politics are so messy -- is that what seems good for the individual is not, when multiplied by thousands or millions of cases, always good for society. Politicians appeal to individuals who vote, but in doing so may shortchange the nation. Most obviously: The welfare state's costs may depress economic growth.

The need is not to dismantle the welfare state but to modernize it gradually, preserving its virtues, minimizing its vices and not doing it abruptly so as to derail the recovery. But first we need to admit it exists.

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